

**DRAFT**

**Item # 49**  
**Agenda ID # 2812**  
**October 30, 2003**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Telecommunications Division**  
**Carrier Branch**

**RESOLUTION T-16771**  
**October 30, 2003**

**R E S O L U T I O N**

Resolution T-16771. The Ponderosa Telephone Company (U-1014-C).  
General Rate Case Filing in compliance with G.O. 96-A, Paragraph VI, and  
Decision Numbers 01-02-018 and 01-05-031.

By Advice Letter No. 316 Filed December 30, 2002.

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**Summary**

This resolution addresses the general rate case filed by The Ponderosa Telephone Company (Ponderosa) by Advice Letter No. 316 in compliance with Decision (D.) 01-05-031. Ponderosa requests: a) no changes to its basic rates or charges, b) an intrastate rate of return of 10.00%, and c) \$4,444,838 in California High Cost Fund-A (CHCF-A) support for 2004, an increase of \$411,276 or 10% over the 2003 amount.

This resolution authorizes total intrastate revenue in the amount of \$14,255,200 for Ponderosa for the test year 2004. This represents a reduction of \$399,759 from Ponderosa's request of \$14,654,959 for total intrastate revenue for 2004. The Total Intrastate Rate Base amount for Ponderosa is \$25,062,635 with an overall Intrastate Rate of Return of 10.00% for the test year 2004. Also authorized by this resolution is CHCF-A support for Ponderosa for test year 2004 of \$3,245,593. This amount represents a decrease of \$855,565 or 20.86% from the CHCF-A 2003 support of \$4,101,158. This decrease is due to adjustments made to revenues, expenses and rate base estimates.

Appendix A compares the Telecommunications Division's (TD's) and Ponderosa's Test Year 2004 Total Company Results of Operations before any CHCF-A adjustment. Appendix B compares TD's and Ponderosa's Interstate and Intrastate Results of Operations before any CHCF-A adjustment to reflect the 10.00% intrastate rate of return. Appendix C compares TD's and Ponderosa's Intrastate Results of Operations estimates after Ponderosa's proposed CHCF-A increase and after TD's proposed adjustments. Appendix D shows TD's calculation of the Net-to-Gross Multiplier and

the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

## **Background**

The Ponderosa Telephone Company, Inc. (Ponderosa), a local exchange telephone utility based in O'Neals, California, provides local exchange telephone service in parts of Madera, Fresno and San Bernardino counties. Ponderosa estimates for 2004 that it will serve approximately 9,630 access lines in its telephone exchanges in Auberry, Big Creek, Cima, Friant, North Fork, O'Neals, Shaver, and Wishon.

In Decision (D.) 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall<sup>1</sup> provision in 2002 for six small LECs if they did not each file a General Rate Case (GRC) by the end of 2001.<sup>2</sup> Ponderosa did not file the GRC by December 31, 2001, and consequently the CHCF-A draw was reduced by 20% to 80%. The last GRC filed by Ponderosa was in 1995 by Advice Letter No. 220, and its latest intrastate results of operations were authorized by Resolution T-16005, dated April 23, 1997.

In AL 316, Ponderosa proposes a) no changes to its rates or charges, b) an intrastate Rate of Return (ROR) of 10.00%, the same rate of return granted in its previous GRC filing in 1997, and c) an increase in its CHCF-A draw by 10% or an additional \$411,276 for year 2004. TD requested that Ponderosa provide the recorded expenses for 2002 when available. On June 6, 2003, Ponderosa updated its workpapers to reflect the recorded 2002 data. Ponderosa used the same methodology to estimate for the test year but had more recent recorded data. This updated filing requested to increase the CHCF-A by \$343,680 over the 2003 level, a reduction of their initial request by \$67,596. Since the updated estimates were based on more recent and accurate data, these were used to estimate the values for 2004.

In September 2003 Ponderosa notified TD that they were billing for long distance charges incorrectly. In the past few years Ponderosa had reduced the number of switches in their territory and relied on high-speed transport to remote terminals. The National Exchange Carriers Association (NECA) tariff includes mileage charges between the switch locations. With the reduction in the number of switches, Ponderosa had not updated the billing methods and was charging for mileage to non-existent switches.

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<sup>1</sup> The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

<sup>2</sup> The six companies were Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Volcano Telephone Company.

Ponderosa adopted the terms and conditions of the NECA tariff for their intrastate access billing creating a similar error in intrastate revenue. Because of this correction, the 2002 Intrastate Access revenue was reduced by \$56,680. This reduces the estimate for this account for the test year.

### **Notice/Protests**

Ponderosa states that a copy of the Advice Letter was mailed to competing and adjacent utilities. Notice of AL 316 was published in the Commission Daily Calendar of January 17, 2003. Notice of the AL filing was made to customers by bill insert. No protest to this AL filing has been received. Because the updated estimates reflected more recent data and Ponderosa had reduced its revenue request, no further notice to customers was necessary.

TD held a Public Meeting in North Fork on May 28, 2003, at which time Ponderosa was given an opportunity to explain its filing to its customers. Ponderosa's customers would be given the chance to ask questions of Ponderosa and the TD staff, and to comment on Ponderosa's rates and services. Ponderosa's customers were given notice of the Public Meeting through bill inserts. No customers attended the Public Meeting. One customer called regarding a numbering issue unrelated to the general rate case filing.

### **Discussion**

#### **Results of Operations**

TD calculates that Ponderosa will earn in test year 2004 a total company overall rate of return of 13.19% at present rates as compared to Ponderosa's calculation of 9.09%. Since TD estimates that Ponderosa is earning above the Commission's target of an overall rate of return of 10.00%, TD proposes different estimates of Ponderosa's revenues, expenses, and rate base as discussed below. Appendix A compares Ponderosa's total company results of operations at present rates for test year 2004, as estimated by TD and Ponderosa.

#### **Total Operating Revenues**

TD reviewed Ponderosa's estimate of access lines and total company operating revenues. While Madera County is enjoying significant growth in some areas, Ponderosa's service area is not among them. The increase in access lines over the past five years ranged from a high of 5.16% in 1999 to a low of 0.66% in 2001. Ponderosa averaged the growth rate for the last two recorded years and estimated an increase in access lines at 1.10% per year. This 1.10% increase in access lines was used to escalate the 2002 revenue to 2003 and 2004. In reviewing the changes in access lines, the low number for 2001 seems to be an anomaly. The growth in customers depends on a lot of

factors. Among these are the economy, stock market levels and interest rates. In an examination of the service territory it appeared that the recent growth rate would continue or accelerate. TD used a three-year average of 1.81% which is below the five-year average of 2.94% but above the recorded 2002 increase of 1.54%. This provides a more reasonable estimate of customer growth for the test year. TD increased the 2002 recorded revenue by 1.81% each year to estimate for 2003 and 2004.

Both Ponderosa and TD used the access line increase percentage to estimate the total revenues. Ponderosa's revenue estimate for the total company less uncollectibles for 2004 at present rates is \$19,962,335. TD estimated the revenues less uncollectibles to be \$20,841,471. The differences are due to the differing access line growth rates, the correction in intrastate access revenue, updated Universal Service Fund (USF) amount, and different estimates of uncollectibles.

Ponderosa and TD differ on estimates for uncollectibles. Ponderosa used a two-year average of ratio of uncollectibles to revenues. The uncollectible amount for 2002 was much higher than those in previous years, although there was a considerable amount of variability. Part of the variability is because Ponderosa used to do some billing for other entities. The uncollectibles include not only amounts not collected from customers but also amounts not collected from some access carriers. TD estimated the uncollectible amounts from customers to be \$10,178. Ponderosa did not estimate the two components of uncollectibles separately.

In the past the access revenues were pooled and if any amounts were uncollected it affected the pool. In 2001 intercompany settlements ended and there were some uncollected amounts. Ponderosa averaged the total uncollectible amounts for 2001 and 2002 since those were the years that did not include pooling.

The uncollectible amount for 2002 was very large due to the access revenue not collected. Global Crossing and WorldCom filed for bankruptcy. However, large bankruptcies are unlikely to occur in the future. The large amount for 2002 is not representative of uncollectibles for the future. TD excluded the access uncollectible amounts. Ponderosa estimated the uncollectible amount to be \$76,562 while TD estimates the uncollectibles at \$10,178.

In the event that Ponderosa incurs similar access revenue bad debt as the result of continued bankruptcy filings by interexchange carriers and does not receive remedy from applicable court decisions, Ponderosa is then encouraged to seek remedy from the Commission for those lost revenue amounts. Ponderosa may not seek remedy from the Commission for those debts incurred due to the bankruptcy filings until the bankruptcy proceeding have been finalized and monies dispersed, if any. This delay is required to avoid the potential of Ponderosa double recovering any of the bad debt it has incurred as the result of bankruptcy filings.

## Total Operating Expenses

Ponderosa's estimate of total company operating expenses (less taxes) at \$14,597,024 is greater than TD's estimate of \$13,956,852 by \$640,172 or 4.39%. A comparison of TD's and Ponderosa's estimates of total operating expenses for test year 2004 is shown in Appendix A. Differences between TD's and Ponderosa's estimates are described below.

For operating expenses, Ponderosa used 2002 actual cost data and increased the amount by a composite escalation factor based on the historical increase in labor and non-labor expenses. The composite factor was based on the average proportion of labor and non-labor in the total expenses. Ponderosa estimated the total for each account and did not break the account into the sub-components. Ponderosa then added amounts for known additions related to a new building and some additional employees and equipment.

TD does not agree with Ponderosa's escalation method. Ponderosa's methodology includes other factors that increase expense levels such as changes in operations and customer growth. For example, if the utility had three vehicles and then added another vehicle, the fuel usage would increase due to the addition of a vehicle. The growth in expense is due to a change in operations. If vehicles are not added uniformly each year then this method of forecasting operating expenses would be flawed. For test year ratemaking purposes, TD attempts to estimate expenses for a normal operating year and then escalate the expense for inflation.

TD analyzed the recorded expense data using several methods. These included regression analysis and averaging constant dollar amounts (i.e. adjusting historical data for inflation) of various time groups. The accounts are divided into four components: salaries, benefits, rents and other. The expense was analyzed by account and by the components of each account. Because rents, salaries and benefits components are not subject to the variability of many other types of expenses, the constant dollar method was not applicable. TD accepted Ponderosa's estimate of rent and escalated it into the test year using ORA's estimated non-labor escalation factor.<sup>3</sup>

TD examined the Payroll expense separately from the analysis of the individual accounts. TD analyzed the payroll by position for 2001 and 2002. For 2002, Ponderosa had 69 total positions with two vacant. Ponderosa proposes to fill the vacant positions

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<sup>3</sup> TD used the January 31, 2003 ORA estimates of Global Insight U.S. Economic Outlook estimates of Non-Labor and Wage Escalation Factors for 2002-2004 as follows:

Year	Labor	Non-labor
2000	1.034	1.035
2001	1.028	1.000
2002	1.016	1.000
2003	1.023	1.006
2004	1.025	1.012

and to add two additional customer service representatives. TD noted that several management employees had large pay increases from 2001 to 2002 ranging from about 11% to over 100%. This greatly exceeds the increase in overall payroll for most employees in the company. TD reduced the payroll by \$150,000 predominantly due to the excessive increases in the management salaries. Moreover, part of the payroll is charged to affiliate companies and another portion is capitalized. The payroll amount TD allocated to the affiliates was \$305,700 and \$264,800 to the capitalized payroll. TD reduced the payroll by these amounts to calculate the amount expensed.

TD used the ORA labor inflation factors to adjust the 2002 payroll to 2004 dollars. Then TD added the two customer service representatives but at a cost (including benefits) of \$99,000 rather than \$112,000 estimated by Ponderosa. New employees start with an entry level pay and have lower benefit costs.

TD examined the relationship of benefits to payroll. The benefits include retirement, medical and life insurance, worker's compensation, payroll taxes, unemployment tax, sick pay and vacation pay. The total benefits divided by the payroll resulted in an effective composite percentage for benefits of 39.4% of the payroll. This composite benefit rate was applied to the 2004 payroll for each account. This method provides an overall estimate of benefits suitable for rate setting. It cannot be used to apportion benefits to each account as the components vary by employee due to job type, longevity and other factors. Ponderosa did not break the accounts into subcomponents to estimate payroll or benefits independently.

The 'other' expense (not payroll, benefits or rent) is the remaining component of expense. TD used Ponderosa's recorded expense figures from the Form M reports for the years 2000, 2001 and 2002 and then applied the recorded inflation factors for non-labor for each year to convert the recorded expenses to constant 2002 dollars. TD then took the three-year constant dollar average and applied the estimated inflation factors for 2003 and 2004. Since payroll, benefits and rent expenses were calculated differently, TD used the three-year constant dollar method only on the other component of the expenses for each account.

To calculate depreciation expenses, both TD and Ponderosa utilized the same methodology and depreciation rates previously adopted by the Commission and used in Resolution T-16005. TD had some minor differences in depreciation calculations. However, since TD accepts Ponderosa's estimate for plant in service and the depreciation factors, TD accepts Ponderosa's depreciation accruals.

## **Taxes**

Both TD and Ponderosa used the same method for calculating income taxes. The differences are due to differing estimates of revenues and expenses. TD and Ponderosa

both used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34.00%.

### **Rate Base**

TD examined Ponderosa's Rate Base components, which include Telephone Plant-in-Service, Telephone Plant-under-Construction, Materials & Supplies, Customer Deposits, and Working Cash. Ponderosa used a six-year average of the ratios of Materials & Supplies to end-of-year plant in service. Ponderosa applied this average to the plant estimate for the test year to calculate its Materials and Supplies. TD reviewed the data and notes that the plant in service is increasing faster than the material and supplies. Therefore, TD used a five-year average of the ratio as more representative of recent conditions. The beginning and end of year estimates are averaged for the test year estimate. Ponderosa estimated \$313,177 for Materials and Supplies while TD estimated \$307,785.

Ponderosa used the most recent balance of customer deposits for the test year. TD accepts this methodology as reasonable and reflective of current conditions since the amount of customer deposits depends on credit conditions and the number of new customers added. The balance carries forward from one year to the next with new deposits added and some deposits refunded.

TD reviewed the construction budget for 2003 and 2004 and went through the budget item by item during the field investigation. The locations for significant work were visited and the justification reviewed.

Ponderosa's major plant additions include a) several fiber optic cable additions, and b) the construction of an additional office building in O'Neals to house some functions and employees that would be relocated from other general office space. The fiber optic projects range from \$220,000 to \$1,150,000, and the office building is estimated at \$750,000. During the field investigation the sites for the major additions were visited and the benefits of the projects were discussed. The addition of the office building is needed to consolidate some employee functions and to free up space in the other building to provide a meeting and training room. The justification for the projects was accepted and the cost estimates were reasonable.

Ponderosa's total company Working Cash estimate for test year 2004 is \$1,050,211 using the estimated 2004 expenses. Ponderosa used the simplified working cash procedure in the Commission's Standard Practice U-16. TD used the same methodology to estimate working cash \$1,006,749. The difference is due to revenue differences and TD's lower expense estimates for the test year.

Ponderosa's Plant-under-Construction amounts for years 2003 and 2004 were based on a historical review of the account rather than specific work orders anticipated to be

opened at year-end. Ponderosa used a 6-year average of Plant-under-Construction as an estimate for the test year. Ponderosa has no long-term construction projects that would span more than one year. TD looked at a 5-year average and two year average. One was slightly above Ponderosa's estimate and one was slightly below its estimate. The difference was not substantial so TD accepts Ponderosa's estimate.

## **Separations**

Ponderosa provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Ponderosa's property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. TD reviewed Ponderosa's separation factors and finds them to be reasonable. Appendix B compares Ponderosa's and TD's estimates of total company, interstate and intrastate results of operations for test year 2004 using these separation factors.

## **Cost of Capital**

Ponderosa requests an overall intrastate rate of return of 10.00%. This is the same rate of return that was authorized for Ponderosa in Resolution T-16005 for its last general rate case filing for test year 1997.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural Incumbent Local Exchange Companies (ILECs) are similar. As a matter of practice, the Commission adopted an 'overall' rate of return of 10.00% for all rural ILECs<sup>4</sup>. The risks faced by rural ILECs appear similar today as in the recent past, therefore TD recommends that the Commission should approve Ponderosa's request for an overall rate of return of 10.00% at this time.

## **Net-to-Gross Multiplier**

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix D shows TD's computation of Ponderosa's net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Ponderosa, based on the recommended intrastate rate base of \$25,062,635 and a rate of return of 10.00%, the recommended gross intrastate revenue requirement change is a decrease of \$855,565.

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<sup>4</sup> The Commission adopted an overall rate of return of 10.00% for Sierra Telephone Company, Inc., Foresthill Telephone Company, Calaveras Telephone Company, Ducor Telephone Company and California-Oregon Telephone Company in decisions D.97-04-032, D.97-04-033, D.97-04-034, D.97-04-035 and D.97-04-036 respectively. The Commission has adopted a 10.00% rate of return for recent general rate reviews for The Evans Telephone Company, Sierra Telephone Company, inc., The Siskiyou Telephone Company and The Volcano Telephone Company.



## **CHCF-A Support**

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Amounts that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, toll private line, and access rates (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs to be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times the urban rate as necessary, and both the means test and the waterfall provisions should apply.

However, if Ponderosa is authorized to receive the 2003 requested amount in CHCF-A support, and the increased amount for USF support, then based on TD's adjustments in revenues, expenses and rate base, Ponderosa's intrastate rate of return would be 12.05%, which would exceed the 10.00% target. Therefore, for test year 2004, TD's computation of Ponderosa's adopted CHCF-A requirement is reduced by \$855,565 from the 2003 amount to a total of \$3,245,593. This will result in an overall intrastate rate of return of 10.00% based on TD's recommended revenues, expenses, and rate base. The USF support was increased by \$725,714 to \$5,436,539, the amount filed by NECA for 2004<sup>5</sup>. This reduced the CHCF-A draw by a similar amount.

## **Affiliate Transactions**

Ponderosa has several affiliated companies that provide various functions. Some are investment companies and some are ranch operations. There are some communication-related companies including one in New Mexico and one in Arizona. A cable-TV operation shares some employees with Ponderosa. TD reviewed the list of employees that performed work for the affiliate and excluded that portion of the payroll from the total payroll expense. The amount of payroll charged to the affiliates was \$305,700.

Ponderosa also owned a minority interest in a partnership that operated wireless telephone (PCS) services in California. This entity was sold in 2001 for stock in the acquiring corporation. Because of restrictions, the stock cannot be sold at this time. Ponderosa recorded the gain on sale on its books based on the stock value at the time of the sale. The value of the stock has declined considerably. During the field investigation, TD inquired into the relationship of Ponderosa with the wireless PCS affiliate. The books and operations were kept completely separate as required by FCC rules.

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<sup>5</sup> Federal USF support is based on the 2004 projected payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2003 with the Federal Communications Commission.

Ponderosa has formed a holding company which will own Ponderosa Telephone Company and all the affiliates.

### **Comments**

In accordance with P.U. Code Section 311 (g) TD mailed a copy of the original draft resolution on September 30, 2003 to Ponderosa and other interested parties. Ponderosa filed comments.

Ponderosa's comments noted that the additions for changes that TD added to the test year bypassed the allocation for intrastate expenses. TD corrected this error.

Ponderosa also addressed the exclusion of uncollectibles for intrastate access revenue. With the termination of pooling, Ponderosa bills and collects intrastate access charges. While TD focused on the bankruptcy of WorldCom and Global Crossing, there are other carriers that have not filed for bankruptcy that defaulted on the intrastate access charges.

Ponderosa suggests a mechanism to reconcile the intrastate access uncollectibles in conjunction with the annual California High Cost Fund – A filing.

TD disallowed \$66,300 in bad debt associated with intrastate access revenue; in its comments on the draft resolution, Ponderosa acknowledges that TD encourages it to seek remedy from the Commission for lost access revenue recovery, but argues that TD does not specify a procedure for securing such a remedy outside the context of a general rate case filing.

Ponderosa proposes the Commission include an ordering paragraph specifying the process for Ponderosa to be made whole for all uncollectible access revenue. Ponderosa suggests that the Commission should order Ponderosa to include net uncollectible access revenue in its annual CHCF-A filing.

TD responds that to allow Ponderosa to recover the net uncollectible revenue from its CHCF-A annual filings would not ensure that Ponderosa had made *every* reasonable effort to collect access revenues from either bankrupt carriers and/or from those carriers that are overdue in paying access revenues to Ponderosa. TD reiterates its position in the draft resolution that Ponderosa not seek remedy from the Commission until bankruptcy proceedings (if any) have been finalized and monies dispersed. Only then does TD recommend that Ponderosa file a specific application with the Commission to seek recovery of net uncollectible access revenues. TD still firmly believes that today, there are sufficient safeguards in place to mitigate and minimize the effects of a situation similar to that incurred by WorldCom.

We agree with TD's position, and decline to allow Ponderosa to seek recovery of net uncollectible access revenues in annual CHCF-A filings. Ponderosa should instead file a specific application to seek recovery of any net uncollectible access revenues if it believes its overall revenues are greatly eroded such that Ponderosa is in a precarious financial position. Absent this application filing, we may give consideration to reviewing Ponderosa's net historical uncollectible access revenues in its next GRC filing provided Ponderosa can fully substantiate that it has exhausted all avenues in attempting to collect from delinquent carriers.

However for Ponderosa, the company has specifically identified \$147,692 and \$23,913 in 'total company' uncollectible revenues associated with the bankruptcies of MCI/WorldCom and Global Crossing, respectively. For the MCI/WorldCom proceeding, Ponderosa indicates that it has recovered \$58,867 to date leaving the remaining balance of \$78,825 to be collected. Of the \$78,825, the actual unrecovered 'intrastate' amount is \$48,156. Ponderosa also provided documented substantiation that it was waiving further rights to any more monies from the MCI/WorldCom bankruptcy proceeding. Given this, TD believes that it is appropriate to include the \$48,156 as a one-time uncollectible revenues for 2004 only. We concur in TD's recommendation and will provide recovery for the \$48,156 in 2004 only. For 2005 and beyond, we will require TD to make adjustments to the CHCF-A fund to reduce the draw by \$48,156.

Ponderosa states that the methodology that TD used to estimate the Benefits Expense for all the accounts understates the benefits amount. TD used a five-year average of the ratio of benefits to payroll. This average percentage of 39.4% is below recent ratios and will understate the benefits amount. Ponderosa suggests using a three-year average to estimate this component.

In response, TD examined the ratios of benefits to payroll. For the last four recorded years (1999-2002) there has been a slight increase in the percentage. The percentage for 1998 was substantially below the other years. Because of this difference, TD used a four-year average to estimate the benefits component of expense. Consequently the benefits percentage increased from 39.4% of payroll to 42.75%.

Ponderosa states that the expense escalation factors are too low. TD used inflation factors developed by ORA to forecast the expense increase from 2003 to 2004. Ponderosa used the methods described above to arrive at an average increase in expenses of 3.64%. However, Ponderosa suggests that TD should use a 3% escalation factor since that was recommended or used in some recent small telephone company rate cases.

TD proposes to maintain the estimates of inflation factors developed by ORA. We concur with TD's methodology.

Ponderosa notes that it owns stock in the Rural Telephone Bank (RTB) which it purchased as a condition of obtaining loans from the Rural Utilities Service. Ponderosa has \$591,100 in RTB stock. This should have been included in rate base but was inadvertently omitted. TD agrees that this amount should have been included in rate base and included it in rate base for 2003 so that it is now in the total for Ponderosa.

TD also proposes an addition on its own initiative to the draft resolution mailed to interested parties in September 2003. On October 2, 2003, TD received updated Universal Service Fund (USF) support amounts authorized for TY 2004 from the NECA. The new USF support amount for Ponderosa is \$5,436,539 and TD has updated its calculations involving USF amounts in Ponderosa's Results of Operations tables. This results in an offsetting decrease in CHCF-A support.

We concur with TD's recommendations for this additional change.

## Findings

1. Ponderosa filed its GRC on December 30, 2002, with a test year of 2004 in compliance with Decision 01-05-031.
2. Ponderosa requests the following for test year 2004:
  - An increase in its California High Cost Fund-A draw for 2004 of \$343,680 for a total 2004 CHCF-A support of \$4,444,838.
  - An intrastate rate of return of 10.00%, the same return granted to it in its last GRC filing in 1997.
  - An intrastate total operating revenue of \$14,654,959.
  - A total intrastate rate base amount of \$24,668,910.
3. The Telecommunications Division (TD) recommends the following for Ponderosa for test year 2004:
  - An increase in USF support of \$725,714 to \$5,436,539.
  - A decrease in CHCF-A support for 2004 of \$855,565 for a total 2004 CHCF-A support of \$3,245,593.
  - An Intrastate Rate of Return of 10.00%.
  - An intrastate operating revenue of \$14,214,919.
  - A total intrastate rate base amount of \$25,057,756.
4. Because of the WorldCom bankruptcy, there is a one-time uncollectible amount of \$48,156. This will be added to the CHCF-A draw for 2004, but will be removed in 2005 (See Appendix D) With this addition the total 2004 CHCF-A support is \$3,293,749.
5. The differences in revenues, expenses, and rate base estimates between Ponderosa and TD result from the use of different methodologies.

6. The Commission finds TD's methodology of estimating revenues to be reasonable.
7. The Commission finds TD's methodology of estimating expenses to be reasonable.
8. The Commission finds TD's methodology of estimating rate base to be reasonable.
9. The RTB stock should be included in rate base.
10. The Commission accepts TD's recommended overall intrastate rate of return of 10.00% for Ponderosa for test year 2004.
11. The Commission finds Ponderosa's depreciation rates previously adopted by the Commission as part of its 1997 GRC to be acceptable for ratemaking purposes for test year 2004. At some point a new depreciation study or a technical update will be required.
12. The Commission finds TD's recommended \$3,205,312 CHCF-A support for Ponderosa for 2004 to be acceptable. This CHCF-A support amount is based on the Commission's adoption of TD's Intrastate Results of Operation for Ponderosa for test year 2004 as identified in Appendix C, column e.
13. The Commission finds that the additional amount of \$48,156 for uncollectible revenue due to the WorldCom bankruptcy is reasonable and therefore the total CHCF-A support for 2004 is \$3,293,749.
14. Commission approval is based only on the specifics of this Advice Letter.

**THEREFORE, IT IS ORDERED that:**

1. The intrastate revenues, expenses, and rate base amounts for test year 2004 identified in Appendix C, column (e) are adopted for The Ponderosa Telephone Company.
2. The overall intrastate rate of return of 10.00% is adopted for The Ponderosa Telephone Company.

3. The depreciation rates submitted by The Ponderosa Telephone Company in support of its General Rate Case in Advice Letter 316 are adopted for ratemaking purposes for test year 2004.
4. The Ponderosa Telephone Company's CHCF-A draw for 2004 is \$3,293,749 including a one-time amount of \$48,156 due to the WorldCom Bankruptcy.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 30, 2003. The following Commissioners approved it:

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WILLIAM AHERN  
Executive Director

APPENDIX A  
PONDEROSA TELEPHONE COMPANY  
TOTAL COMPANY RESULTS OF OPERATIONS  
PRESENT RATES -- TEST YEAR 2004

	Ponderosa	TD	Utility Exceeds TD	
	a	b	Amount c=a-b	Percent d=c/a
<b><u>OPERATING REVENUES:</u></b>				
1 Local Network Services	2,771,826	2,802,873	(31,047)	(1.12)
2 Local Services - CHCF-A	4,101,158	4,101,158	0	0.00
3 Interstate USF	4,710,825	5,436,539	(725,714)	(15.41)
4 Long Distance Network				
5 Intrastate Access	2,407,869	2,383,161	24,708	1.03
6 Interstate Access	5,647,422	5,727,021	(79,599)	(1.41)
7 Miscellaneous	399,797	400,897	(1,100)	(0.28)
8 LESS: Uncollectible Rev.	(76,562)	(10,178)	(66,384)	86.71
9 <b>Total</b>	19,962,335	20,841,471	(879,136)	(4.40)
<b><u>OPERATING EXPENSES:</u></b>				
10 Plant Specific	3,120,329	2,775,273	345,056	11.06
11 Plant NonSpecific (less depr.)	1,900,580	1,882,607	17,973	0.95
12 Depreciation & Amortization	5,766,351	5,766,351	0	0.00
13 Customer Operations	1,082,844	986,828	96,016	8.87
14 Corporate Operations	2,726,920	2,545,793	181,127	6.64
15 <b>Subtotal</b>	14,597,024	13,956,852	640,172	4.39
16 State Inc. Taxes	435,292	450,585	(15,293)	(3.51)
17 Federal Income Taxes	1,526,202	1,579,821	(53,619)	(3.51)
18 Taxes Other Than Income	349,793	349,793	0	0.00
19 <b>Total Expenses</b>	16,908,311	16,337,051	571,260	3.38
 20 <b>Net Operating Income</b>	 3,054,024	 4,504,420	 (1,450,396)	 (47.49)
 <b><u>RATE BASE</u></b>				
21 Telephone Plant-in-Service	75,940,147	76,531,247	(591,100)	(0.78)
22 Tel. Plt Under Construction	3,837,300	3,837,300	0	0.00
23 Mat & Supplies	313,177	307,785	5,392	1.72
24 Working Cash	1,050,211	1,006,749	43,462	4.14
25 Less: Deprec. Res.	(47,004,469)	(47,004,469)	0	0.00
26 Def. Taxes	(522,100)	(522,100)	0	0.00
27 Customer Deposit	(13,100)	(13,100)	0	0.00
28 Total Rate Base	33,601,166	34,143,412	(542,246)	(1.61)
 29 Rate of Return	 9.09%	 13.19%		

APPENDIX B  
PONDEROSA TELEPHONE COMPANY  
RESULTS OF OPERATIONS AT PRESENT RATES  
INTERSTATE AND INTRASTATE  
TEST YEAR 2004

	Ponderosa			TD		
	Total	Interstate	Intrastate	Total	Interstate	Intrastate
	a	b	c=a-b	a	b	c=a-b
<b>OPERATING REVENUES:</b>						
1 Local Network Services	2,771,826		2,771,826	2,802,873		2,802,873
2 Local Services - CHCF-A	4,101,158		4,101,158	4,101,158		4,101,158
3 Interstate USF	4,710,825		4,710,825	5,436,539		5,436,539
4 Long Distance Network	0		0	0		0
5 Intrastate Access	2,407,869		2,407,869	2,383,161		2,383,161
6 Interstate Access	5,647,422	5,647,422	0	5,727,021	5,727,021	0
7 Miscellaneous	399,797	3,634	396,163	400,897	3,685	397,212
8 LESS: Uncollectible Rev.	(76,562)		(76,562)	(10,178)	0	(10,178)
9 <b>Total</b>	19,962,335	5,651,056	14,311,279	20,841,471	5,730,706	15,110,765
<b>OPERATING EXPENSES:</b>						
10 Plant Specific	3,120,329	909,638	2,210,691	2,775,273	779,108	1,996,165
11 Plant NonSpecific (less depr.)	1,900,580	550,545	1,350,035	1,882,607	516,589	1,366,018
12 Depreciation & Amortization	5,766,351	1,593,693	4,172,658	5,766,351	1,593,693	4,172,658
13 Customer Operations	1,082,844	355,478	727,366	986,828	247,487	739,341
14 Corporate Operations	2,726,920	754,277	1,972,643	2,545,793	704,177	1,841,616
15 <b>Subtotal</b>	14,597,024	4,163,631	10,433,393	13,956,852	3,841,054	10,115,798
16 State Income Taxes	435,292	135,397	299,895	450,585	69,498	381,087
17 Federal Income Taxes	1,526,202	474,724	1,051,478	1,579,821	243,670	1,336,151
18 Taxes Other Than Income	349,793	93,087	256,706	349,793	93,087	256,706
19 <b>Total Expenses</b>	16,908,311	4,866,839	12,041,472	16,337,051	4,247,309	12,089,742
20 <b>Net Operating Revenue</b>	3,054,024	784,217	2,269,807	4,504,420	1,483,397	3,021,023
<b>RATE BASE</b>						
21 Telephone Plant-in-Service	75,940,147	20,835,318	55,104,829	76,531,247	20,997,496	55,533,751
22 Tel. Plt Under Construction	3,837,300	1,052,821	2,784,479	3,837,300	1,052,821	2,784,479
23 Mat & Supplies	313,177	81,719	231,458	307,785	80,312	227,473
24 Working Cash	1,050,211	288,488	761,723	1,006,749	276,238	730,511
25 Less: Deprec. Res.	(47,004,469)	(13,183,202)	(33,821,267)	(47,004,469)	(13,183,202)	(33,821,267)
26 Def. Taxes	(522,100)	(139,391)	(382,709)	(522,100)	(139,391)	(382,709)
27 Customer Deposit	(13,100)	(3,497)	(9,603)	(13,100)	(3,497)	(9,603)
28 Total Rate Base	33,601,166	8,932,256	24,668,910	34,143,412	9,080,777	25,062,635
29 Rate of Return	9.09%	8.78%	9.20%	13.19%	16.34%	12.05%



APPENDIX C  
PONDEROSA TELEPHONE COMPANY  
INTRASTATE RESULTS OF OPERATION  
AT ADOPTED RATE OF RETURN  
TEST YEAR 2004

	Ponderosa	TD	Utility Exceeds TD		Adopted
	a	b	Amount c=a-b	Percent d=c/a	e
<b>OPERATING REVENUES:</b>					
1 Local Network Services	2,771,826	2,802,873	(31,047)	(1.12)	2,802,873
2 Local Services - CHCF-A	4,444,838	3,245,593	1,199,245	26.98	3,245,593
3 Interstate USF	4,710,825	5,436,539	(725,714)	(15.41)	5,436,539
4 Long Distance Network					
5 Intrastate Access	2,407,869	2,383,161	24,708	1.03	2,383,161
6 Interstate Access	0	0	0		0
7 Miscellaneous	396,163	397,212	(1,049)	(0.26)	397,212
8 LESS: Uncollectible Rev.	(76,562)	(10,178)	(66,384)	86.71	(10,178)
9 <b>Total</b>	14,654,959	14,255,200	399,759	2.73	14,255,200
<b>OPERATING EXPENSES:</b>					
10 Plant Specific	2,244,353	1,996,165	248,188	11.06	1,996,165
11 Plant NonSpecific (less depr.)	1,379,059	1,366,018	13,041	0.95	1,366,018
12 Depreciation & Amortization	4,172,658	4,172,658	0	0.00	4,172,658
13 Customer Operations	811,278	739,341	71,937	8.87	739,341
14 Corporate Operations	1,972,643	1,841,616	131,027	6.64	1,841,616
15 <b>Subtotal</b>	10,579,990	10,115,798	464,192	4.39	10,115,798
16 Operating State Inc. Taxes	299,895	305,455	(5,560)	(1.85)	305,455
17 Operating Fed Income Taxes	1,051,478	1,070,974	(19,496)	(1.85)	1,070,974
18 Taxes Other Than Income	256,706	256,706	0	0.00	256,706
19 <b>Total Operating Taxes</b>	1,608,079	1,633,135	(25,056)	(1.56)	1,633,135
20 <b>Net Operating Revenue</b>	2,466,890	2,506,267	(39,377)	(1.60)	2,506,267
<b>RATE BASE</b>					
21 Telephone Plant-in-Service	55,104,829	55,533,751	(428,922)	(0.78)	55,533,751
22 Tel. Plt Under Construction	2,784,479	2,784,479	0	0.00	2,784,479
23 Mat & Supplies	231,458	227,473	3,985	1.72	227,473
24 Working Cash	761,723	730,511	31,212	4.10	730,511
25 Less: Deprec. Res.	(33,821,267)	(33,821,267)	0	0.00	(33,821,267)
26 Def. Taxes	(382,709)	(382,709)	0	0.00	(382,709)
27 Customer Deposit	(9,603)	(9,603)	0	0.00	(9,603)
28 <b>Total Rate Base</b>	24,668,910	25,062,635	(393,725)	(1.60)	25,062,635
29 <b>Rate of Return</b>	10.00%	10.00%			10.00%

Appendix D  
Ponderosa Telephone Company  
Adopted Net-to-Gross Multiplier  
Intrastate Revenue Requirement and CHCF-A Support  
Test Year 2004

1Gross Revenues		1.0000
2Uncollectibles		included
3Net Revenues		1.0000
4State Income Tax rate	8.84%	0.0884
5Fed Taxable Income (Ln 3 less Ln 4)		0.9116
6Federal Income Tax Rate	34.00%	0.3099
7Net Income (Ln 5 less Ln 6)		0.6017
8Net to Gross Multiplier (ln 1 /ln 7)		1.6621
9Adopted Rate Base		25,062,635
10Net Revenues adopted at 10.00% (ln 9 x 10%)		2,506,267
11Net Revenues at present rates		3,021,023
12Change in Net Rev. (Ln 10 less Ln 11)		(514,756)
13Gross Revenue Change Required		(855,565)
14Change in Revenue from proposed rate changes		0
15Revenue Deficit to be funded by CHCF-A		(855,565)
162004 CHCF-A Support at present rates		4,101,158
172004 CHCF-A Support at proposed rates		3,245,593
18Additional Amount for WorldCom Bankruptcy		48,156
19Total CHC-A Support for 2004		3,293,749